

# e c o n o m i c Review

## The Tally of Democratic Rule

After ten bitter and formidable years, the Yugoslav electorate finally concluded that the socialist regime was a true epochal catastrophe, one of the major disasters in recent Serbian history. It was a regime that exploited what was most vulnerable and most susceptible to abuse in the national being. Scattered throughout all the republics of the former Yugoslavia, without an institutional structure to guarantee them basic security after the disintegration of the joint state, and burdened by the historical memory of mistrust and conflict between certain nations, members of the Serbian nation became prey for all sorts of demagogic manipulation. These are the kind of ideological and political tricks that first produce conflicts and then offer a platform for patriotic salvation from enemies that are literally fabricated through such manipulation. A rich nationalist curtain perfumed with patriotic incense very soon fell over the political space, immediately proving to be the most effective way to collect votes. In a flash, the nationalist deceit turned into a bountiful source of political capital, and anyone who failed to spice his political stew with nationalism had nothing to ask for on the electoral scene. The electorate could not have avoided this trap and this is the mechanism that gave rise to the most unfortunate decade in the painful and often unbearable history of this nation, from the two Serbian uprisings to the present day. We should have finally learned from the bitter experience that, in this ethnically mixed space, the most certain road to disaster leads through hatred and conflicts with other nations. Here, tolerance and understanding among different ethnic entities have always been and quite certainly remain so greatly desirable and necessary that it is no exaggeration to say that true and genuine patriotism here must imply practically the same kind of sincere and deep affection for the nations with which and alongside which we live as for our own nation. An illustration this point can be found in the model of Veljko Petrović, whose patriotism is impossible to doubt and who wrote the famous story *Bunja*, one of the three most beautiful in Serbian literature, speaking about the tragic destiny of a Croat from Bačka.

### Explosion of Popular Expectations

It seems that the Yugoslav nations have been cured from the malignant nationalist disease, and so finally has the Serbian nation. Overcoming nationalism among the Serbian nation, to the extent that one can speak of permanent change, can be characterized without any exaggeration as a landmark achievement. The reason for this lies in the fact that the Serbian nation can rightly said to have been in the most difficult position since, due to its wide dispersion, it was mixed with others and so was the most exposed to the potential of existential risks and manipulation. The collapse of nationalism in Serbia will perhaps prove to have marked the epochal collapse of nationalism on the entire Balkan peninsula.

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FRY Basic Economic Indicators	2000	2000 1999	I 2001	I 2001 XII 2000	I 2001 I 2000
GDP growth in real 1994 prices <sup>a)</sup>	...	8.4%	...	...	...
Industrial Production	...	10.9%	...	-7.3%	8.7%
Montenegro	...	3.7%	...	-6.0%	-9.7%
Serbia	...	11.4%	...	-7.4%	10.3%
Central Serbia	...	12.0%	...	-3.4%	5.4%
Vojvodina	...	10.1%	...	-15.2%	23.0%
Average Wage - DM	...	...	...	...	...
Serbia	93	-11.2%	127	-5.9%	69.5%
Unemployment Rate <sup>b)</sup>	...	...	28.8%	...	...
Montenegro	...	...	39.2%	...	...
Serbia	...	...	28.0%	...	...
Current account, in USD millions	-1,298	3.2%	...	...	...
Trade balance, in USD millions	-1,989	-10.6%	-195	0.5%	28.3%
Export - USD million	1,723	15.0%	123	-12.5%	17.1%
Montenegro	157	31.1%	25	385.5%	37.1%
Serbia	1,411	13.8%	98	-28.1%	13.4%
Import - USD million	3,711	12.6%	318	11.8%	3.1%
Montenegro	313	-1.0%	18	37.8%	-25.4%
Serbia	3,035	15.6%	293	8.6%	3.7%
Monetary supply (M1), end of period, in DIN billion	29.6	60.7%	28.6	-3.5%	73.9%
Cash	10.3	39.8%	9.4	-9.3%	52.3%
Deposits	19.3	74.9%	19.3	-0.4%	86.7%
Real money supply, end of period, in DM million	1,043	-26.7%	954	-3.5%	39.2%
Market exchange rate, monthly level	5.84%	37.3%	5.76%	-15.3%	42.6%
Retail prices	...	75.7%	...	3.0%	111.5%
Serbia	...	70.0%	...	3.2%	110.3%
Cost of living	...	85.6%	...	3.0%	111.6%
Serbia	...	79.6%	...	3.2%	111.1%
Industrial prices	...	106.5%	...	...	...
Serbia	...	102.6%	...	...	...
Black market exchange rate (din/DM)	25.45	103.2%	30.00	0.0%	41.0%

<sup>a)</sup> Estimates based on information from the Federal Statistics Office.

<sup>b)</sup> Unemployment rate refers to December.

## High expectations are the greatest threat to the new political order

## Rhetoric of easy improvements is an unforgivable illusion

## ... but there are no signs of public satisfaction with significant achievements to date

However, with the fall of the old regime, which thrived on the nationalist ideologies and social demagoguery closely linked to it, enormous expectations arose. The level of aspirations presents itself as almost proportional to the depth of the poverty and misery to which the nationalist pestilence pushed the entire nation. The sudden and explosive expectations represent the greatest threat to the new political order. After long years of deprivation – this was a crisis that lasted two and-a-half times longer than the Great Economic Crisis of 1929-1933 and which cut all the macroeconomic aggregates by at least double the corresponding cuts in the Great Economic Crisis – people are impatiently awaiting major and lasting improvements. There are no resources for this in our economy. Over a ten-year period FR Yugoslavia experienced double bankruptcy by international standards; gross investments ranged at around 12% of social product, while the share of depreciation was about 17% of social product; and debts between companies and their clients reached the terrifying figure of around USD 17.5 billion, a full 15% greater than GDP. Social product has fallen below 50% of the 1989 level, and a considerable portion of the available social wealth has been spent in the meantime. The entire infrastructure was deplorably degraded through incessant exploitation without investments and maintenance. Capacities in the economy were more than halved due to insufficient investments. The financial situation in the economy and state is disastrous due to the enormous foreign and internal debt, while wealth plunged into the zone of deeply negative values.

It becomes clear that there are no material possibilities for any spectacular improvements and that there will be none, not only in the near, but in the distant future either. The road out of the abyss into which the entire Yugoslav community was pushed can only be gradual, and full of patience and sacrifice. Actually, if there was any possibility for some kind of improvement, even a forced one for short-term use and in the form of a stimulant, the previous regime would have certainly made use of it prior to last year's elections. Possibilities for a more significant short-term improvement of the population's economic position do exist on the condition that considerable international donations are received, but it is clear that such improvements are guided by someone else's hand and that under no pretense can they be considered permanently sustainable. Therefore, it will take much time to renew and possibly expand the capacities, to rehabilitate the untended and ruined facilities, to create and fill the deplorable voids of working capital, to have people re-embrace production discipline, to receive additional training and refresh their forgotten knowledge. Any hopes for major and easily achieved improvements represent a serious delusion and unforgivable illusion. Such improvements are not possible in our economy at the elementary, resource level.

What can the factors of such improvements do, if we disregard international donations, which probably cannot represent a lasting orientation in the strategy of the Yugoslav community's economic turnaround? The only thing possible is a change of institutions and the legal order defining the rules in the economic, political and every other game. It is first necessary to point out that a change of the rules, with certain exceptions that will be discussed in greater detail later in the text, cannot produce instantaneous results. Economic and other factors must first observe and learn these rules, master the new procedures and new patterns of conduct which the rules imply, become assured that the change of the rules are permanent, and only then begin, most probably in a gradual and cautious manner, to redirect their resources towards new, individually and socially more rational needs. And then, time will also be needed for the new alternative to produce fresh, major effects. One would say that only the patient stand a chance.

Nevertheless, delays do not end with the time needed for changing the manner of conduct and redirecting resources towards new needs. Even the very process of drawing up new laws is time consuming and implies a large number of complex operations. In order to conceive new solutions many things need to be examined and studied, then the time necessary for drawing up these new solutions is in no way insignificant, which is followed by expert, and subsequently broader public debate, and only then come the complicated and time consuming parliamentary procedures. The road to a proper legal order is a long, quite expensive and largely uncertain one. The laws of a state can be viewed as a specific type of invisible and impalpable capital whose creation requires resources, which produces large effects if well created and which are the source of enormous social damage when usurped by an authoritarian regime which mutilates and invalidates them.

All this bears an enormous political hazard. On the one hand, there was a veritable explosion of expectations that is met with the modest possibility of a gradual and, at least as viewed by the broadest public, slow fulfillment of these expectations. No matter how much effort it invests, the new regime must disappoint broad layers of society. Signs of such a disappointment are already looming on the horizon. Actually, great and obviously unrealistic expectations also produce very rigorous and equally inappropriate standards for assessing what has been achieved and what is constantly being presented to the excessively impatient broad public. In short, the public expects the impossible, and then makes strict and unjust assessments, completely disengaged from reality, about the new regime's alleged poor performances: "they went to enormous pains to get hold of power, promised the sun and the moon, but they are now acting like the old ones – they only care about their own interests". This text will be concluded with the resolute refuting of such a notion and will prove that this is not a case "of a new prince, new bondage". The situation has essentially changed: "the new prince" continues to love himself most of all and to give priority to his own interests, but, in the new situation, the only way to do something good for oneself is to do something positive for us all.

### Short Catalogue of Certain Results from the New Regime

It is first necessary to point out what the factors of the new regime did before they even found themselves in the position to rule the state. This implies, hopefully once and for all, their emergence from the nationalist trap. This landmark turnaround is of such immense value that it is in itself sufficient to ensure, in some future analysis, an impressive and lasting reputation for the factors of the new regime, even more than the positive tally of their overall political moves. For a moderate analyst, even a slow pace in actions and reactions following the achievement of this great historical task and a series of feverish attempts and mistakes over a long number of years would be understandable. However, our public is everything but moderate and patient; it seeks the impossible in the sense of major results that need to be achieved immediately. It is, therefore, crucial to point to the recklessness of such expectations and inappropriateness of the criteria resulting from them. Nevertheless, despite all qualifications, the accomplishments of the new regime – especially in view of the fact that, at the moment when this text was written, it was only around a month since the formation of the Serbian government – are truly impressive if evaluated on the basis of reasonable criteria. This can be confirmed by a look at the still incomplete list of the new regime's achievements.

First, the country returned to the world at almost lightning speed. Too long is the list of the international organizations which we have returned to, and it includes practically all the most important ones. Crucial in this sense was quite certainly the international community's inclination and its readiness to support the new political establishment in every possible way. In this sense, the contribution of our authorities can in no way be neglected, since they did their part of the job impeccably. Then there is also the impressive material and financial support that has exceeded the expectations of all objective observers. Also established, practically by summary procedure, was the convertibility of the dinar and inflation was cut down from some 15 percent and more on a monthly basis to between 2 and 3 percent. Furthermore, at the very start and almost instantaneously cleared were the outsized, socially irrational and destructive foreign trade regulations – abolished was the deposit for foreign trade companies, the annual tax for these firms, requirements concerning the number of employees, business space and equipment... Also abolished was a large portion of unnecessary foreign trade permits whose only goal was to enable the ruthless racketeering of the economy and merciless pouring of its money into the pockets of clerks and their political patrons. This is one of the rare groups of inter-related measures that will produce instantaneous results and one of the spheres in which large expectations do not have to meet with disappointment. Even if it had done nothing more in these 2 or 3 months, the new regime would have merited all compliments. And what is to be said about the equally impressive non-economic achievements: visible progress toward revealing the crimes which the previous regime persistently and successfully concealed, the prospects for a political solution to conflict along the border with Kosovo, the law on amnesty for military conscripts...

Despite all this, the insurmountable discrepancy between the exploding expectations and the inevitably smaller achievements represents a political threat to the new regime. It is no coincidence that the first democratic authorities in transition countries consistently lose power in the next elections. It remains for us to hope and act so that our country will be an exception from empirical practice. If the blade of this fatal rule's guillotine were to fall on our regime, this would represent a colossal injustice. To all this one should, nevertheless, add a discrete memento: if, on a long-term basis, there performance slides onto the well-known path of erosion, there will be many justified reasons for criticizing the new regime despite its, objectively speaking, more than pleasing initial results.

## The State of Railway Infrastructure in Serbia

The state of any structure a number of years after its construction depends primarily on its initial functionality (the time of its delivery to the user), which implies the quality of construction, the material used in construction, the professional and responsible assembly of the design and the realization, as well as the timely, adequate, optimal and responsible maintenance of the structure in the course of its functioning. There is no need to go a long way to find examples of well constructed and beautiful facilities which, due to the lack of maintenance, have become eyesores and an encumbrance to the environments they are located in. They can be found everywhere around us.

A railway infrastructure implies all the facilities necessary for railway transport to function: railway lines and facilities on the lines, electric power installations and stable electric traction installations with accompanying facilities, signaling-safety devices with accompanying facilities, telecommunications and computer installations with facilities, the land within the railway protective belt, railway station buildings, depots and other facilities at railway stations in the function of railway transport.

The value of the rail infrastructure and its share in the railway's total assets are given in the following table:

The state of the entire infrastructure directly effects all the elements of railway transport: its security, precision, effectiveness, comfort and, of course, the financial results of its operations. A poor or non-existent development strategy, an irresponsible and incompetent management, large funds spent on inappropriate projects necessary for the daily-political promotion of the ruling party or individuals in it, and megalomaniac ambitious at a time when the country was under sanctions and barely making ends meet all brought the railways to a truly unenviable position. The railway's physical infrastructure has reached a level of almost total non-functioning and jeopardizes state security.

Position	ŽTP Beograd	JŽTP of Montenegro
	Value of permanent assets in million dinars	
1.1. Total	7,430	2,035
1.2. Basic funds	7,224	2,035
1.2.1. Land	68	48
1.2.2. Structures	5,444	1,969
Share of infrastructure		
2.1. In the value of fixed assets	74.2	99.2
2.2. In the value of basic assets	70.8	99.2
2.3. In the value of business assets	59.8	99.0

Source: Balance sheets for 1997

### Railway Infrastructure at ŽTP Beograd

Already in 1991, the managerial board of JŽTP Beograd railway transport company of Belgrade adopted the program "New Serbian Railways" defining a strategy for the development of railway transport in Serbia, based on the construction of new and the modernization of existing capacities of the railway infrastructure and rolling stock. The same year, the Law on Railways was adopted, defining the importance of railways for the development of the economy and especially emphasizing the notion of the railway infrastructure. Everything was relatively well defined, but for completely different circumstances and an environment different from the one our country was in at the time. Over the past ten years, the state earmarked considerable funds for works on the railway, but these investments were mostly misdirected. Instead of investing in the current maintenance of existing facilities, which would preserve the infrastructure and its enormous capital value until a time when the economy could provide for investments in new facilities, investments were made into the daily-political promotion of the ruling party and individuals in it. Facilities such as the Vukov Spomenik station, the continuation of the construction of the Valjevo-Loznica railway line and earthwork on the body of the future "high-speed railways", the construction, tearing down, and then reconstruction of part of the Prokop station...

What happened to infrastructure in the meantime is best illustrated by data on its present state. Around 96% of ŽTP Beograd rail lines are written off. We have no real insight into the state of the ties and rails on the tracks of Yugoslav Railways (JŽ) since, during the previous years, the rails and ties were replaced only at the places where the safety of traffic was seriously endangered. In this sense, rails were often dismantled at one place and installed at another.

From among the 9,000,000 installed ties of ŽTP Beograd, 80% are made of wood, while the rest are of reinforced concrete. Wooden ties on artery railway lines and main lines can last around 30 years on average, and over 50 years on other railway lines. The average rot of ties on artery railway lines is around 15%. The result of the lack of current, and especially investment maintenance of tracks is the fact that the permitted axle load on over 55% of the railway line length is below 22.5 tons. Around 60% of the switches are between 16 and 54 years old, i.e. 5% are over 55 years old.

In ten years' time, around 145 kilometers of railways tracks were overhauled, which is less than would be necessary on an annual basis. In view of the state of our railways around 200 kilometers should be overhauled every year. The cycle of the overhauling of artery railway lines has not been performed for the past 34 years, while the last overhauling of the Belgrade-Subotica railway section was carried out in 1984, on a length of 2.64 kilometers.

The results of such an overhauling "dynamics" are: a catastrophic state of railway lines, the total destruction of the infrastructure, lower speed and slow rides on an overwhelming part of the network.

It is interesting that even when overhauling was performed, this was done at wrongly chosen places. On corridor X, i.e. the most important railway route through our country, on a section of the Belgrade – Mala Krsna – Velika Plana line, due to the overhauling, the railway was closed to traffic for almost two years, which is an unknown method in the literature on the rational maintenance of important railway routes. The works were performed in an inadequate manner and with the use of second-hand rails, and regardless of the fact that the entire operation was carried out under the name "2:58", which was to mean that, following the overhauling, it would take 2 hours and 58 minutes to travel from Belgrade to Niš, at present the fastest train arrives in Niš in 4 hours and 1 minute at an average speed of 63.29 km/h, while reduced speed have been introduced on the overhauled railway sections.

### Overhauling of Railway Tracks at ŽTP Beograd

Period (year)	Completed overhauling (km)
1990. - 1995	110.0
1996	10.5
1997	13.5
1998	10.8
1999	0.0
2000	0.0
<b>Total:</b>	<b>144.8</b>

Or the example of the Kraljevo – Čačak – Požega railway line, which is being overhauled although it was previously in a relatively good state, with speeds of 100 km/h. The overhauling began in 1997, it is still under way, and the speed on certain sections of the railway is now 50 km/h. At the same time, trains cover the Lapovo – Kraljevo line at speeds of 30-60 km/h, even though this is an important railway connection. The Kraljevo – Stalać section, i.e. the connection of the entire eastern part of Serbia with Montenegro, and the connection between the railway lines Belgrade – Niš and Belgrade – Bar, are in such a state that trains move at the speed of 40 km/h.

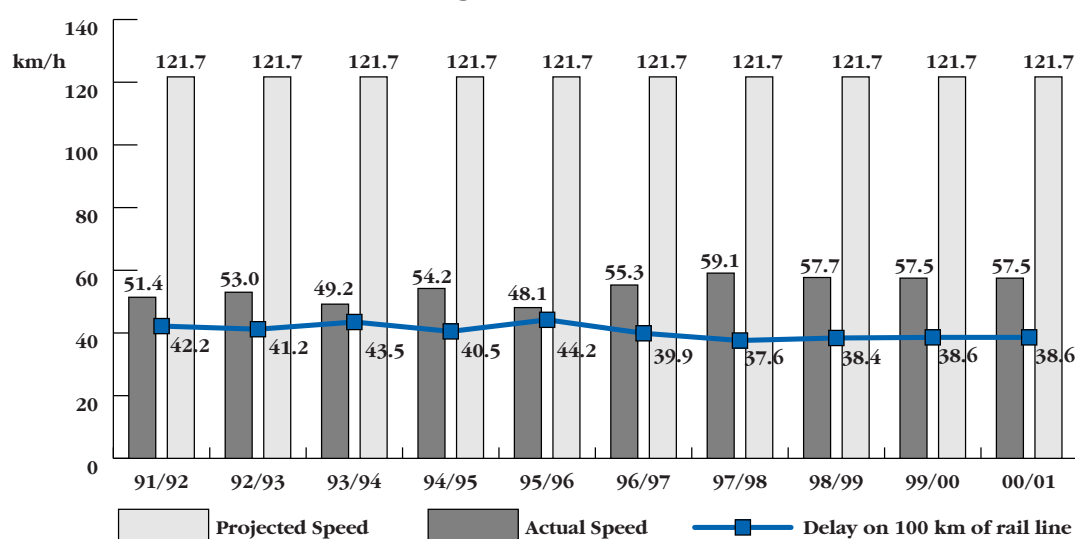
The state of the entire railway infrastructure (the tracks, the number of vehicles, the electric and signaling-safety devices), along with the organizational weaknesses, result in the fact that on the Belgrade – Niš artery route, on part of the section of the railway line from Belgrade to Velika Plana, along a length of 90 kilometers, the fastest train travels 2 hours, i.e. at an average speed of 45 km/h. The fastest train covers the Belgrade – Šid – state border distance, which is 122 kilometers long, on the right-hand track, in 2 hours and 15 minutes, i.e. at an average speed of 54.22 km/h. The 98 kilometer long railway distance Belgrade – Vršac – state border, is covered by the fastest train in 2 hours and 4 minutes, i.e. at an average speed of 47.54 km/h, while the fastest train covers the Belgrade – Zaječar railway line, 254 kilometers long, in 5 hours and 53 minutes, or at an average speed of 43.17 km/h. In 1970, trains used to

cover the same distance in 4 hours and 30 minutes.

Furthermore, these are the time-table figures for the fastest trains, which are practically never respected. Today one travels by train from Pančevo to Kikinda 4 hours and 30 minutes, while in 1958 the train ride from Belgrade lasted 2 hours and 58 minutes. Between 5 and 6 hour delays of our trains are a frequent occurrence, and even up to 9 hour delays in the case of international trains.

Diagram 1 presents figures for the railway line Belgrade – Šid – state border (right-hand track), which show the difference between the projected speed (average per section) and the actual speed and the delay of train on 100 kilometers of the railway.

*Average Speed on the Railway Line: Belgrade – Šid – State Border (right-hand track)*



#### Mechanized Track Maintenance at ŽTP Beograd

The last machines for mechanized track maintenance at ŽTP Beograd were obtained in 1985 and are being exploited today as the newest in the group of these machines. The result of the age of the

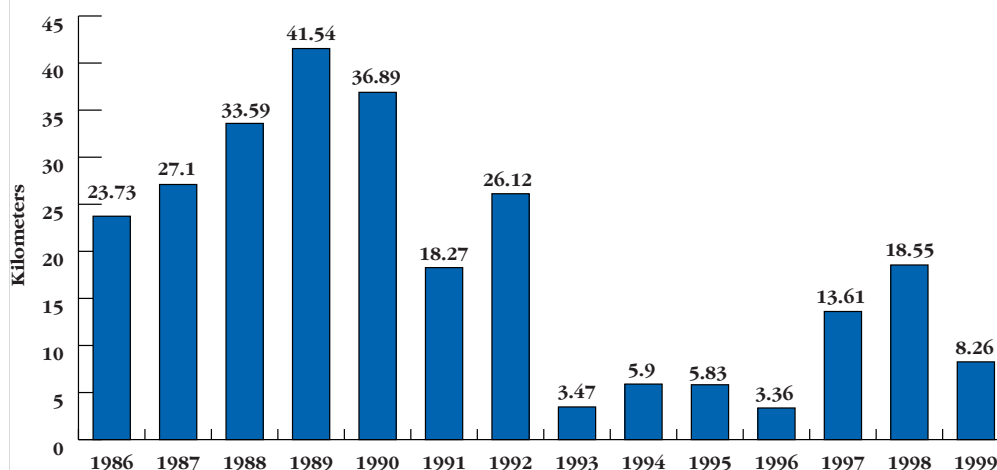
machines, a total suspension in the procurement of new capacities, long years of war, inadequate maintenance, lack of spare parts, insufficiently trained personnel and a total lack of motivation on the part of the employees for working on maintenance, is the extremely poor, and in the case of certain machines even catastrophic state. An analysis of the 1990 – 2000 period and the state of the mechanization for the maintenance of railway tracks shows the following:

- machines engaged in the complex mechanized railway maintenance:
  - the depreciation of all the capacities is over 100%,
  - the average depreciation of tamping machines is 188.7% (between 3 and 5 tamping machines for switches are already into their third work span, i.e. their depreciation is over 200%);
- machines engaged in investment railway maintenance:

- the average depreciation of the machines is 308.5%; all the machines, except one for the planning of the ballast, are at the end of their fourth work span, i.e. they are between 28 and 34 years old;

- machines for the maintenance and control of the technical state of the tracks have an average depreciation of 143.14%.

#### Machine Cleaning of Tracks on the Territory Covered by ŽTP Beograd

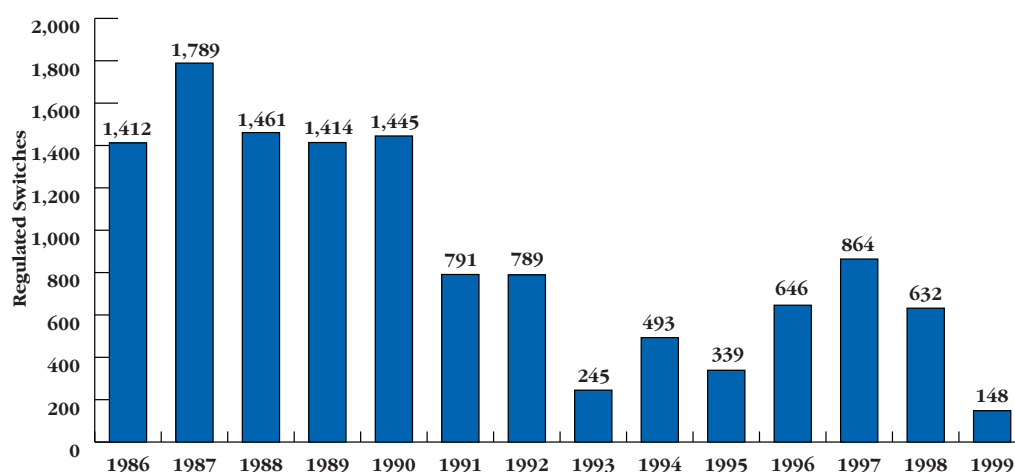




The result of such a state of the mechanization for track maintenance is, among other things, the fact that the index of planned and performed works on the machine cleaning of tracks and switches in 1999 compared to 1998 accounted for between 18.8% and 61.2%. In 1999, the absolute minimum in the number of regulated switches was registered: 148 compared to 1,445 in 1990.

Works on the planning of the ballast have been reduced by 70% compared to what had been planned. It must be mentioned that no works could be performed in the course of 1999, during the NATO aggression, which led to the reduction of the scope of works, but this did not significantly affect the general downward trend in the period between 1990 and 1999.

### *Machine Regulation of Switches on the Territory Covered by ŽTP Beograd*



### *Rolling Stock*

The state of the rolling stock is no better than that of stable installations. The entire rolling stock of the track vehicles of ŽTP Beograd, i.e. diesel and electric locomotives, diesel-motor trains, rail cars and electric motor trains total to 513 vehicles. At this moment, which is also the average state, there are only 33 track vehicles in working order, i.e. the rate of immobilization is 74%. ŽTP Beograd possesses 392 passenger cars, 130 of which are in working order and 262 are not. Out of the total of 14,601 freight cars, only 5,264 are in working order, i.e. the rate of immobilization is 64%. An average of 90 passenger and 20-30 freight trains are cancelled each day.

### *Electrical Engineering Installations, Telecommunications, and Signaling-Safety Devices*

Electrical engineering devices are over 30 years old and are on the verge of 100% depreciation. After 30 years of work, the overhead contact line is practically worn out and unless it is replaced en masse, transport on electrified railway lines could be seriously jeopardized.

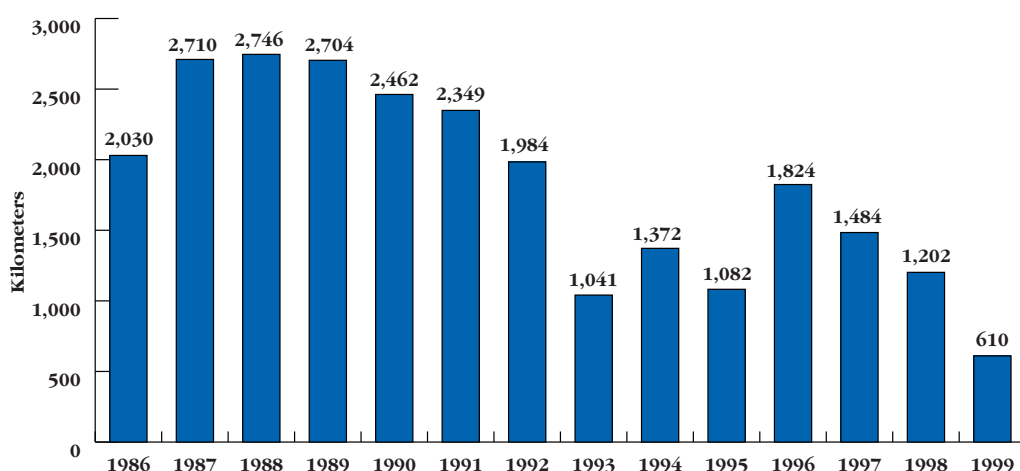
The state of the telecommunications systems is also critical. The automatic telephone and telegraph network and the analogous relay systems are between 25 and 40 years old and have become totally outdated, so that their revitalization is absolutely impossible – the spare parts are no longer produced. The most critical part of the telecommunications system are the routes of the air TT lines, where the situation is totally unstable and chaotic on 70% of the length. Due to this, there are no communications on a large number of railway sections, which is today absolutely impermissible.

The mobile part of the locomotive ground-train radio link is 60% damaged, so that this communication is largely non-functional on artery railways. The ground-train radio link does not function, the registrophonic devices are out of use, while the railway telephones have been stolen. This kind of a telecommunications system quite certainly cannot represent the basis for introducing a modern information system, which our railways are also badly in need of.

The signaling-safety devices are also in such a state that they require general reconstruction since their faulty state and lack of devices directly endanger the safety of railway transport. Due to unquestionably jeopardized safety, the unpopular but only remaining possibility is speed reduction, so that our trains run ever slower along the tracks of ŽTP Beograd. Due to the speed reduction an increasingly large number of passenger and freight cars, which we do not have, is necessary. So the vicious circle of inefficiency is complete.

From this short review of the state of the railway infrastructure, it is clear that the railways need radical changes. The entire system must be placed on different foundations, from technical, through organizational to personnel issues. It is the state that must adopt a clear stand in regard to its general expectations of the railways as a system, the transport policy tasks placed before it and the general development strategy of various transport branches in Yugoslavia. It is only with the circumstances defined in such a manner, with the precise formulation of the tasks and principles for surviving on the market of transport services, that the railways can set off on the road to recovery, which will quite certainly be long and full of challenges.

### *Machine Regulation of Tracks on the Territory Covered by ŽTP Beograd*



## MACROECONOMIC REVIEW

### Prices and Wages

Economic policy in Serbia is facing a cruel dilemma. In our earlier reviews we mentioned the choice between a high quasi-fiscal deficit and accumulated losses in public companies on the one hand, and the maintenance of price stability on the other. An additional problem is the limitation imposed by the need to identify a socially sustainable solution. In the first month, this dilemma was partially resolved to the benefit of the former option.

Total retail price growth in the Federal Republic of Yugoslavia (FRY) for January was 3.0%. Growth in retail prices was mostly boosted by trends in the prices of services (8.6%). The prices of municipal-housing services registered the largest rise, up approximately 43.7%. This partly eliminated the less painful part of price disparities. The announced gradual adjustment to the cost of electricity, and the potential of new increases in the prices of fuel and municipal services could have far more significant repercussions. Until then, no inflationary pressures are expected from the industrial sector, or at least not considerably larger than desired. This is attested to by the registered increase in the prices of industrial products in January, up only 1.8%, while the prices of agricultural products, down 0.6%, had a stabilizing effect.

In January, retail prices in Serbia were up 3.2% month-on-month, and up 110.3% year-on-year. Since at issue is predominantly the growth of

the prices in vital services, identical rates were registered in the measurement of the cost of living. The costs of living in the FRY were up 3.0% in January month-on-month. The rise in the costs of housing, up 11.2%, accounted for a large role in the overall increase in the cost of services, up 16.7%. The cost of basic nutrition was up 1.2%, tobacco and beverages were up 2.0%, and clothes and footwear were up 4.8%. In January, the cost of living in Serbia was up 3.2% month-on-month, and up 111.1% year-on-year.

Net average wages in Serbia in January (3,821 din.) fell by 5.9% month-on-month. Expressed in German marks, January wages were 127.4 DEM, which represents the same drop relative to the preceding month. The real purchasing power of salaries in January (nominal wages deflated by the cost of living index) fell by 8.8% relative to the usual growth in the last month of the year, when the real purchasing power of wages increased by 20.7%. Net average wages in the trade sector (3,739 din. or 124.6 DEM) fell 3.1%, while in the non-trade sector the fell 13.8% to 4,107 din. or 136.9 DEM. The extremely large oscillations in earnings heightened tensions and led to the announcement of strikes, especially in the sectors of health care and education. The peak of social unrest is to be expected prior to the adoption of the republican budget, from which these sectors are financed, for the purpose of strengthening the trade unions' negotiating position. Compared to the same month last year, the average wage (expressed in DEM) is up by 69.5%, but without any major effects on the real purchasing power.

Net average pensions in Serbia for January (2,986 din.) registered a 21.6% drop month-on-month, whether expressed in nominal (2,986 din.) or real (99.5 DEM) terms. In December 2000 relative to November 2000, pensions recorded a nominal growth of 63.6%. The real purchasing power of pensions fell by 24.0% in January, while in December 2000 it rose by 60.7%.

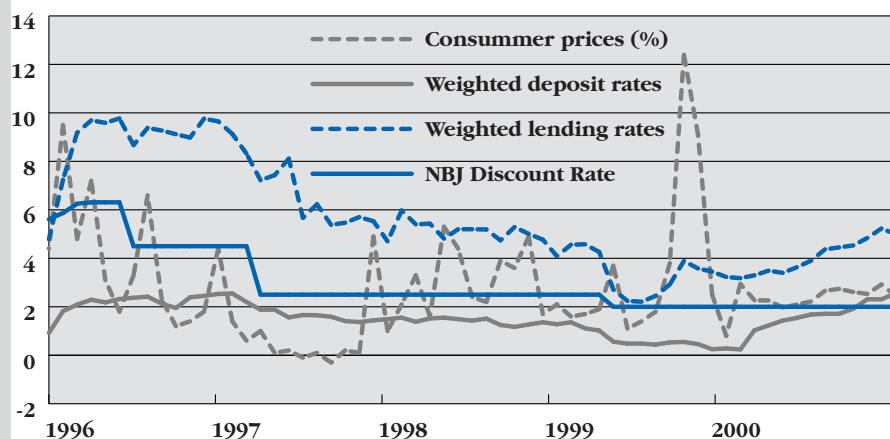
### Output

The usual seasonal drop in output was registered in January. Relative to the preceding month, output was down by 7.3%. In Montenegro, output fell by 6.0%, and in Serbia it was down 7.4%. In Central Serbia, the production fell 3.4%, and in Vojvodina by 15.2%. Output increased in only three sectors – the production of leather and leather goods, footwear was up by 1.8%, basic metal production by 19.6% and the production and supply of electricity, gas, steam and warm water rose 19.8%. Importantly, the deseasonalized index for January shows 10.4% growth in production relative to December.

Industrial output in the FRY rose by 8.7% in January 2001 year-on-year, with the impact of seasonal factors being the same. Output in Montenegro fell by 9.7%, while it increased in Serbia by 10.3%. Expressed in this manner, output in Central Serbia recorded 5.4% growth, while Vojvodina saw 23.0% growth. Industrial output increased in 18 sectors compared to the same month of the previous year – from 1.9% (the manufacture of metal products, except machines) to 67.5% (the production of garments and fur). Ten sectors recorded a drop in output, ranging between 2.2% (the manufacture of tobacco products) and 68.9% (the production of radio, TV and communication equipment). Industrial output in the FRY in 2000 (according to final figures) was up by 11.1% relative to the preceding year. Montenegro registered 3.7% growth in industrial output, and Serbia was up 11.7%. Industrial output in the FRY in January 2001 was down 64.7% relative to January 1989.

From the perspective of accumulated debts, the four most vulnerable sectors are the electric power industry, oil and gas production, the manufacture of transport means, and ferrous metallurgy. All the companies operating within the Serbian Electric Power Company are on the list of the 100 major loss-making firms, while the Serbian Oil Company is first. The largest companies in the two other branches are also high up on the list. They employ around 120,000 people. There are, nevertheless, several crucial differences among these sectors. The level of capacity utilization and industrial output differs drastically. The production of transport means is operating at 6% of its 1989 output, while the electric power industry operates at around 90%. Various causes are also at issue – e.g. price controls and the loss of markets are major contributors to the low level of capacity utilization. A second part of the problem can be linked to public municipal companies, which absorb an enormous portion of the losses. These facts should also be borne in mind when speaking of the true unemployment rate.

### Interest Rates and Inflation



## Foreign trade

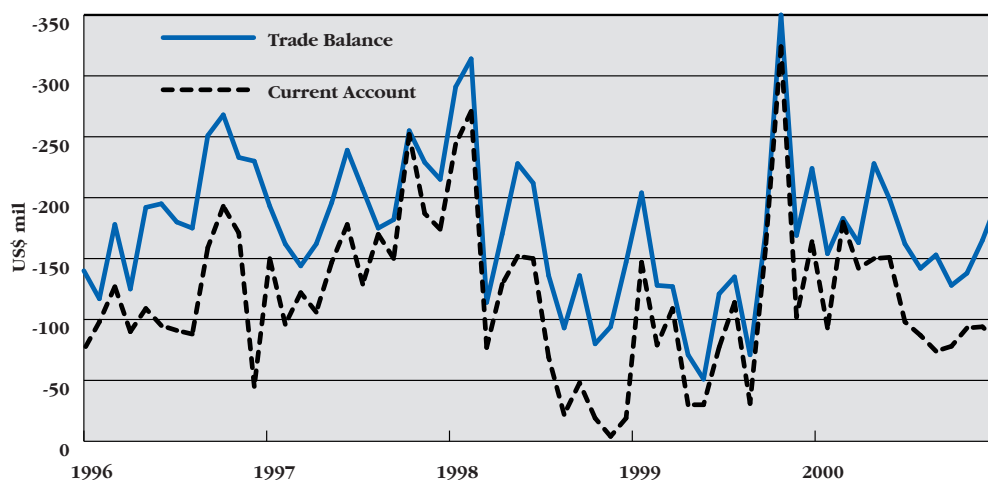
Last year's current account deficit was USD 1.3 billion. In January, Yugoslavia exported goods worth USD 123 million and imported goods with a value of USD 318 million, producing a trade deficit of USD 195 million. January exports fell by 12.52% month-on-month, while imports were up by 11.76%. The systematic deregulation of hard currency transactions related to imports and exports abolished a large part of the state's discretionary rights.

Even though the dinar registered real depreciation over a very long period of time, in the event of a more intensive correction of price disparities and a higher inflation rate, the already low competitiveness of goods from Serbia will, nevertheless, be jeopardized. This does not mean that the stability of the dinar will be jeopardized as well. The policy of a guided fluctuating exchange rate is credible in the upcoming period, particularly with a near-term favorable political outcome on the inflow of funds from a number of sources – direct foreign investments, credits and donations.

Regarding the structure of foreign trade by groups of products, the largest share in the FRY's total exports in January was: aluminum (15.26%), raspberries (4.0%) and refined copper (3.0%). In January, Serbia exported goods worth USD 98 million, and imported goods with a value of USD 293 million, for a trade deficit of USD 195 million. Relative to December 2000, exports dropped by 28.11%, while imports increased by 8.6%, and the deficit grew by 45.5%. Relative to January 2000, exports increased by 13.4%, imports were up by 3.7%, and the deficit dropped by 0.9%.

Regarding the structure of foreign trade by groups of products, the largest categories of exports from Serbia in January by value were: raspberries (5.0%) and refined copper (3.8%). The largest categories of imports to Serbia in January by value were: oil (8.1%) and electricity (7.7%), which was financed from donations.

## Current Account and Trade Balance



## Money, Public Revenues and Expenditures

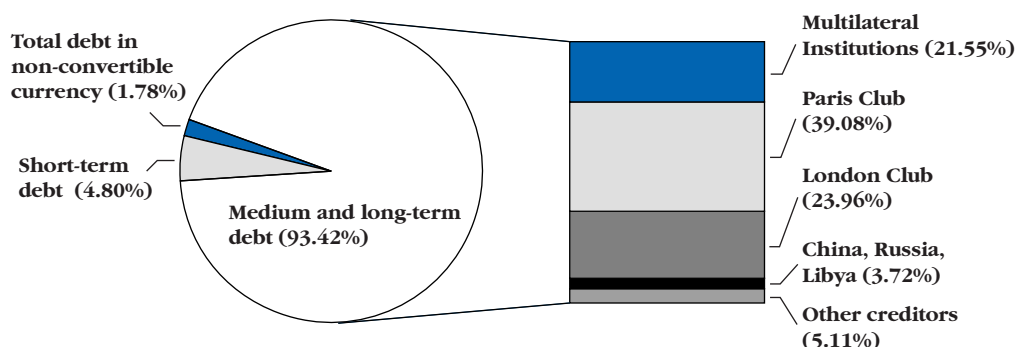
After several-months of growth in the money supply, M1 dropped in January by 3.5%, so that the money aggregate found itself at the level of 28.6 billion dinars at the end of the month. In January, the emission policy still relied exclusively on hard currency transactions, while primary money accounted for 19.6 billion dinars.

Considerable changes in the M1 money aggregate occurred once again. Cash was reduced by 9.3%, while deposit money, down 0.4%, remained at approximately the same level. In February, the NBJ was actively present on the financial market with treasury bonds. The NBJ's presence reflected on overall trade in this market. In mid February, the interest rate was considerably reduced to 5.1%, whereby it accounted for less than 2% at a monthly level in real terms.

The illiquidity of economic subjects is a major problem. Over 26,000 companies in Serbia are faced with chronic illiquidity, and they employ 458,000 people. A potential problem is also the already mentioned phased correction to the disparity of prices, which would bring a new group of companies into a position of inability to meet obligations.

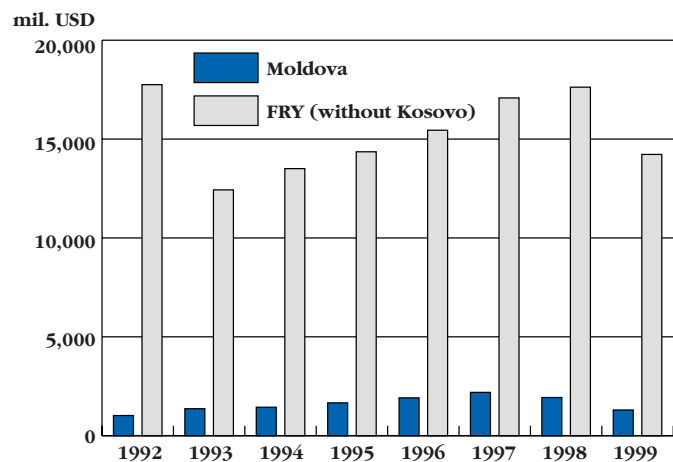
The gross collection of revenues totaled to 16.1 billion dinars, 3.1 billion of which went into the federation's account, and 13 billion to Serbia. Budgetary revenues of 10.1 billion were divided by the same ratio, as were the 6 billion revenues of social insurance organizations. The federal budget received 3.1 billion dinars, the republican budget 5.5 billion, and the rest went into the budgets of the municipalities and for ceded and non-allocated funds. According to the federal government's projections, the budget is to be around 8.7% of projected social product, i.e. 45.9 billion dinars – around 1.53 billion DEM, which means that around 100 million DEM or 6.5% of the spending has been achieved to date.

## Total Debt of FRY

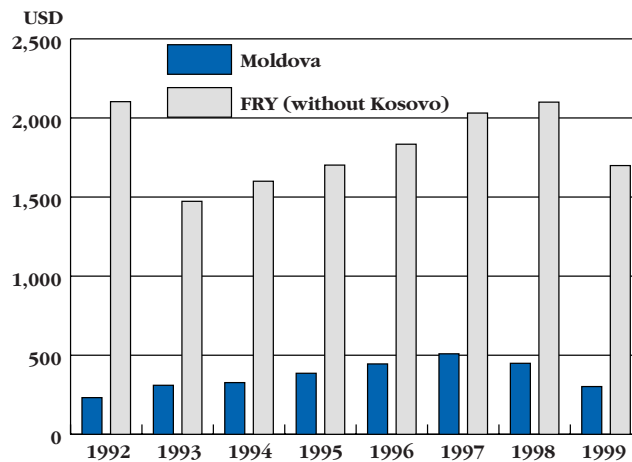


# Yugoslavia in the mirror of Eastern Europe

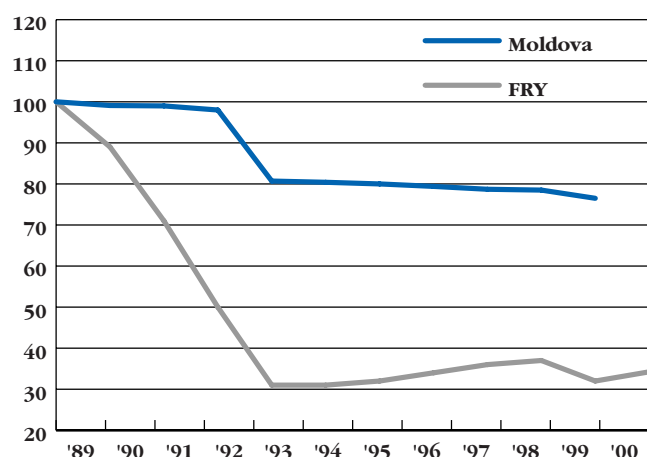
## GDP



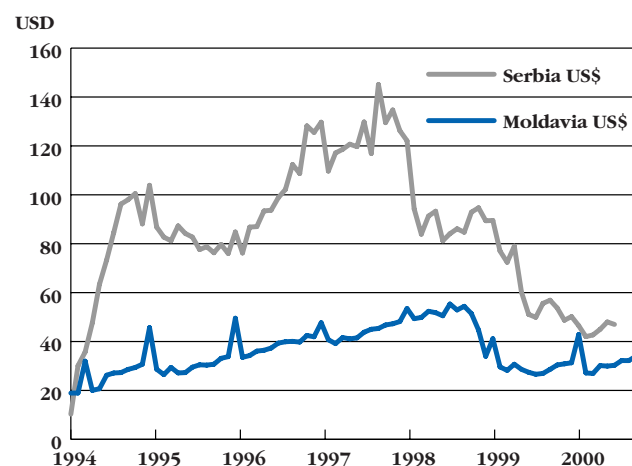
## GDP per capita



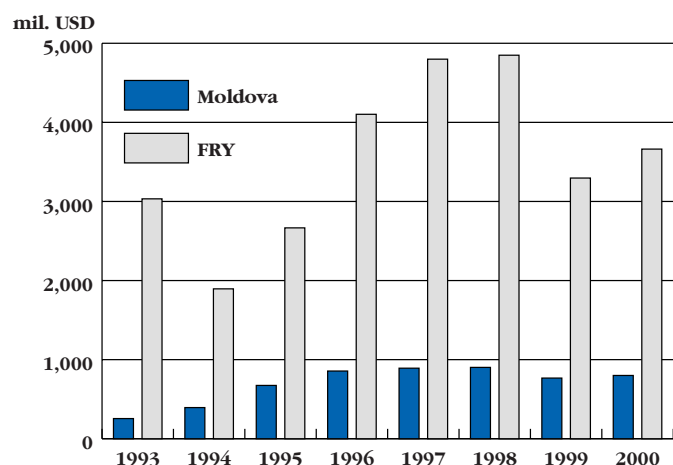
## Industrial Production 1989 = 100



## Salaries Quarterly Wage



## Import



## Export

